U.S. Office of War Information

Inflation

Washington, D.C.

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INFLATION

What is it?

What does it mean for each of us?

What can we do about it?

OFFICE OF WAR INFORMATION
WASHINGTON, D. C.

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December 1942

The United States Government in this special statement sets forth the *why*, *how*, and *what* of inflation.

Here you can find in plain language the story of this battle on the home front in which every one of us is vitally engaged.

IF WE LOSE THE BATTLE OF INFLATION, we gravely handicap the war abroad and expose people at home to high prices, want, and misery.

IF WE WIN, we can go through the war with our economy in healthy condition and our finances in good order.

For years we have been hearing cries of "Wolf!" on the subject of inflation. Like the men in the fable, some of us stopped paying attention long ago. But in the fable the wolf came.

Between August 1939, the month before Hitler's legions invaded Poland, and August 1942, prices of basic raw materials in the United States rose by 67 percent, wholesale prices by 32 percent, and living costs by 19 percent. Almost all of the rise in the cost of living has occurred since March 1941. President Roosevelt has warned that the country faces a disastrous rising spiral in the cost of living unless the program he has laid down is enforced.

At this point someone will say: "What of it? I can't make head or tail of this inflation business. And I couldn't do anything about it if I did understand it. It's up to the Government."

Let's see. In the first place, everyone is concerned. In the second place, there is no reason why anyone who can put two and two together should not be able to understand the problem that confronts us. In the third place, government by itself cannot forestall inflation. The people will have to do it.

What Inflation Means

Putting aside technicalities, inflation simply means that demand—the spending power in the hands of the people—is greater than the supply of things to be bought. Everyone knows what happens when demand outruns supply. When the world series comes to town the demand for seats outruns supply. Then the ticket scalpers peddle tickets at two or three times the regular price. That's the way it is with inflation, except that inflation is general. It affects all prices.

The classic example—although not too accurate for America—is Germany after the first World War. Everyone has heard how prices rose so fast the German people had to carry their money around in baskets. The purchasing power of the mark fell so rapidly that before it left the presses it wasn't worth the paper it was printed on. It fell to one-trillionth part of its old

value. That means 12 zeros added to the price. A $35 suit would be marked up to $35,000,000,000,000, a 5-cent cup of coffee to $50,000,000,000.

We've all heard that before. Too many times. We don't believe anyone is going to charge $50,000,000,000 for a cup of coffee here and get away with it. Of course not. Before anything like that could happen in the United States we should have to be like Germany in the early 1920's—defeated, morally and politically exhausted, and financially bankrupt. That won't happen here. But that doesn't mean we can laugh off the threat of inflation.

A 5-cent cup of coffee will never go to $50,000,000,000, but it could easily rise to 15 or 25 cents, and be hard to get at that. Sensible men in and out of the Government who are not given to hysteria think it is quite possible that the cost of living might double or even quadruple if we muff the ball on inflation. After all, the cost of living doubled in the last war, and the potentials of inflation this time are enormously greater.

If that happened, it would be bad enough. People living on wages might get more wages, but the chances are that the cost of living would rise faster. Workers living on fixed wages—teachers, firemen, policemen—and people with savings, investments, pensions, insurance would be particularly hard hit. Think what it would mean to the millions of holders of social security cards to find when their old-age pensions came due that they could buy only one-quarter of what they should buy. It would just mean the difference between social security and no security at all. So inflation is everybody's baby.

More Money; Less Goods

Now for the condition that threatens us with a disastrous rise in living costs today. Our people today have more money to spend than ever before in all their history. And every day they have less goods on which to spend it. There is no mystery about this. Both the increase in spending power and the decrease in goods to purchase are the direct results of the war program.

The Government is now spending for war at the rate of $6,000,000,000 a month. Employment has been rising, wages have been rising, total pay rolls have been rising. That means the national income has been rising. In 1942 it has reached the new record height of around $115,000,000,000.

While all this has been going on, what has happened to supply?

The manufacture of hundreds of articles—automobiles, radios, household goods from vacuum cleaners to curtain rods—has been stopped so ships, planes, tanks, and guns can be made. At current dollar values the estimated supply of goods available for civilians in 1942 came to only $82,000,000,000.

That, again, is only the beginning. In 1943 the supply will be still lower and the national income still higher.

In one way or another this great discrepancy between potential spending and the supply of goods available must be reconciled. There are only two ways.

Prices can rise until the cost of the goods available equals the amount of money available. That is what has always happened elsewhere under such conditions. That is inflation.

That is one possibility. It is not pleasant. The alternative is to control the volume of spending by taxing heavily, keeping profits at a low, reasonable level, fixing ceilings on prices and rents, putting limits upon wage increases, preventing farm prices from rising, limiting consumer credit, pursuing an energetic program of war savings and debt repayment, and rationing all essential goods that become scarce. That is not pleasant either.

Limiting spending means heavier taxes than we ever have dreamed of—taxes that dig into the income of the people right down to the border line of bare subsistence.

We cannot do the job simply by taxing corporations and the rich. The fact is that, although this is a rich nation, it is not a nation of rich men; most of our people have low incomes.

The overwhelming majority of all consumers, representing the largest part of our total consumption, consists of people in what we call the lower-income groups. We must face the harsh necessity of taxing away part of the income of these people. As President Roosevelt has said, our standards of living must come down.

That means not only heavier taxes than ever before, but also that we put aside part of our incomes in War Bonds, lending the money to the Government instead of spending it.

The Worker and the Farmer

Even that is not enough. It will not suffice to take away excess spending power through taxes and investment in War Bonds if, at the same time, new quantities of excess spending are released through a continued stream of higher wages or ever-higher farm prices. We must not merely siphon off existing spending power; we must limit future increases.

That is why wages have been stabilized. Under the President's Executive Order of October 3, 1942, wages in general will remain at September 15, 1942, levels. However, the War Labor Board is authorized to make increases necessary to adjust inequalities and gross inequities, raise substandards of living, and aid in the effective prosecution of the war.

For many years farm prices have been too low. Our national policy has been to do everything possible to raise them. In the 3 years of the war, farm prices have risen steadily—more than twice as much as the average level of all prices.

Every time farm prices go up the cost of living rises, which leads to demands for higher wages. When wages rise, the costs of manufactured goods go up. Since "parity" for the farmer is based on the relationship between what the farmer receives for his produce and what he pays for the things he buys, such price rises lift the definition of "parity," meaning still higher farm prices.

To have attempted to reach 110 percent of parity for farm prices, or higher, would have meant impossible boosts in living costs, which, in turn, would have made wage stabilization impossible. We would have had inflation. That is why wages and farm prices were stabilized simultaneously.

It Rests With the People

In the consideration of all the measures in the President's program to control living costs the question naturally arises whether, with all the hardships and sacrifice involved, we actually can forestall inflation.

The only honest answer is that it will rest with the people. Government can only take the hard, unpopular steps that are needed if there is widespread popular support. Even when these steps are taken, they can be successful only if there is patriotic cooperation.

Taxes can scarcely be drawn up harsh enough to mop up all the surplus spending power that will exist. The balance must be taken care of by the voluntary restraint of citizens in saving, not spending, as much as they possibly can.

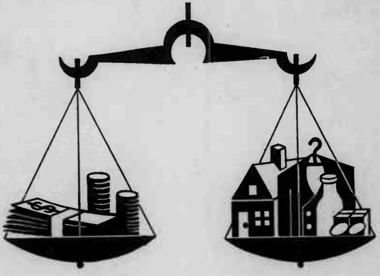
It may be that in any circumstances living costs will rise a little more. But the difference between a moderate price rise and an uncontrolled inflation is the difference between a mild stimulant and a gallon of alcohol.

For the time being we are called upon to turn our backs on many of our former peacetime goals. Instead of restricting production and expanding consumption, we must expand production and restrict consumption. Instead of limiting hours and increasing wages, we must work longer and stabilize wages. Instead of raising prices, we must hold down prices. Instead of raising the standard of living, we must lower it.

These things are not easy. But there is no avoiding them. If we fail to make these sacrifices willingly and intelligently, they will be exacted of us brutally and unintelligently by the

forces of wartime inflation. In that case we shall have gained nothing. We shall have handicapped our own war effort and have jeopardized the peace to follow by saddling our country with economic and social dislocations of a profoundly weakening character.

With all the difficulties, there are sound grounds for courage. More than anything else, the struggle to avert inflation is a test of the intelligence, self-control, and patriotism of all the people. No nation ever had a better chance to pass that test.



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